



## Manager's Greeting

The second quarter of the year produced encouraging signs of a stabilising property market which translated into increased activity within the two Funds' mortgage portfolios. Despite this we remain cautious in our approach to management of the mortgage portfolio and all new loans that have been made during the quarter have been directed at improving the overall risk profile and geographical spread.

Consistent with our policy to address any delinquent loans promptly, we have conducted a small number of mortgagee sales within the P.I.E. Fund since the start of the year. Some resulted in losses which were covered from Fund income and reserves. We have confidence in the quality of the two Funds' mortgage portfolios and can report that at the time of writing the No 2 Fund had no loans in arrears and that no new arrears files have materialised within the P.I.E. Fund. The P.I.E. Fund continues to carry arrears most of which have been resolved and are awaiting property settlements.

Our view of the next two quarters remains guarded with mixed views on the near term economy. As a consequence the quarterly return for the P.I.E. Fund has been kept to the equivalent of 4% per annum and the No 2 Fund to the equivalent of 6.00% per annum. This means that over the past 12 months annualised returns for the P.I.E. Fund has been equivalent to 6.42% per annum and 7.62% for the No. 2 Fund. All returns are expressed before taxation but after all expenses.

New investors are back in very limited numbers with support for the No. 2 Fund generating 18% net growth since January. Considering the number of very competitively priced bank and corporate bond issues in the past six months this is an excellent result. The P.I.E. Fund prospectus has expired and we are not currently offering units in the Fund until a new prospectus is issued.

We remain committed to our investment strategy and are encouraged by the loyalty of our investors.

Please do not hesitate to call me on (03) 471 6500 or toll free on 0800 800212.

Yours sincerely,

Peter Hutchison, General Manager

Proud Supporter of  
Otago/Southland Division  
of the Cancer Society



### RETURNS AT A GLANCE



Return for quarter  
ending: 30/6/2009

**4.00% p.a.**<sup>1</sup>

Compounded return  
past 12 months

**6.42% p.a.**<sup>2</sup>

P.I.E Pre-Tax Return  
(Applies to those changing  
from a 39% to 30% tax rate)

**7.36% p.a.**<sup>3</sup>

The NZMIT P.I.E. Fund is currently closed for new investments.

### RETURNS AT A GLANCE



**No. 2 Fund**

Return for quarter  
ending: 30/6/2009

**6.00% p.a.**<sup>1</sup>

Compounded return  
past 12 months

**7.62% p.a.**<sup>2</sup>

The NZMIT No.2 Fund is open for investments.

## Comfortable with your investment?



It's a good feeling being comfortable with your investment.

If you're looking for the comfort of a simple, straightforward investment, call us for an Investment Statement or contact your independent investment adviser.



# NZ MORTGAGE INCOME TRUST

**No. 2 Fund**

**Notes:** 1. the above return is based on an investor being in the Fund for the entire quarter ended 30/6/2009. Any investor who joined the Fund or withdrew from the Fund during the quarter would not necessarily earn the same return. 2. the returns achieved are calculated by adding accumulated interest back to the principal so that interest is earned on interest from date of opening balance, before tax but after all fees and expenses have been deducted and are expressed as compounding return per annum equivalent. Unforeseen factors may influence future compounded returns and the actual return may fluctuate and are not guaranteed. Details on the return calculation are set out in the registered prospectus for the No. 2 Fund that is available on request. Past returns do not guarantee future performance. 3. the above return calculation illustrates the per annum equivalent if an investor changes from a tax rate of 39% to the maximum P.I.E. tax rate of 30% which is before tax but after expenses and is based on an investor being in the Fund for the entire quarter. See general note on back page. 4. the NZ Mortgage Income Trust P.I.E. Fund (the 'Fund') does not have a current prospectus and therefore no units in the Fund are currently being offered, nor will applications be accepted for investment in the Fund, until a new prospectus is put in place. Information on the Fund contained in this newsletter is included for the sole purpose of the reporting to current investors.

## SPOTLIGHT ON ONE OF OUR BOARD MEMBERS



**John Francis Gallaher** BCom, Member NZX, ACA, ANZIM

John Gallaher is a principal of Forsyth Barr Limited, a New Zealand wide investment management and sharebroking organisation. He specialises in funds and investment management. In addition to a number of commercial directorships John is also a director of a number of national and local community and sporting organisations.

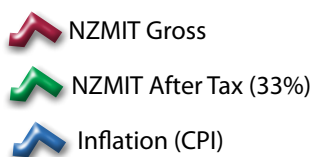
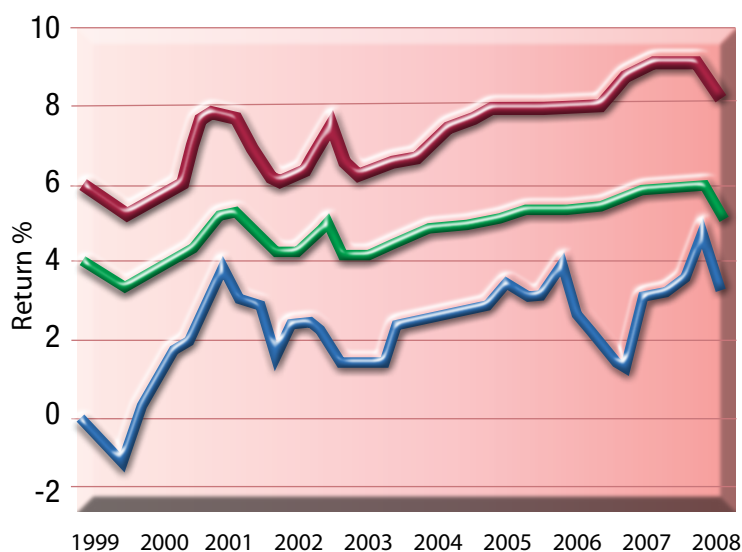
## OUR RETURN vs INFLATION and THE BANKS

Many commentators say that it is the return of your capital, not the **return on your capital** that matters at present. Well, here at NZ Mortgage Income Trust we don't subscribe to this attitude. We can remain focused on the return on capital because our investors have so far never had to worry about the return of their capital.

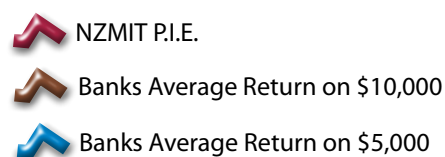
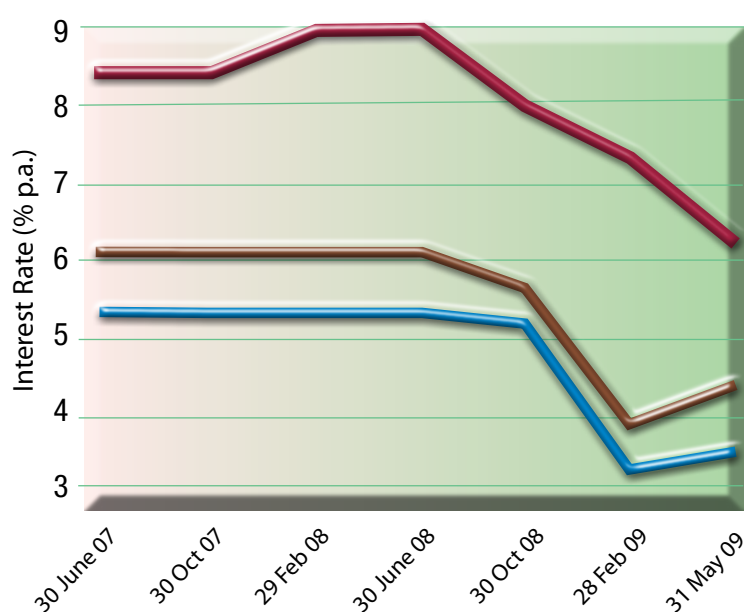
In addition our annualised rate of return has always been ahead of the banks one year term deposit interest rate.

**It is important to note that a negative return has never happened here. In fact not only has our return been positive since inception of the Fund in 1994, it has stayed ahead of the inflation rate as demonstrated by the graph below. Even more impressive, our return has remained ahead of the inflation rate when adjusted at the 33% tax rate.**

NZMIT P.I.E. Returns compared with Inflation



NZMIT Returns vs Banks 12 Month Term Deposits



Note: Inflation figures sourced from <http://www.tradingeconomics.com>

The actual annual return calculations in the above inflation graph have been determined in accordance with the following formula:  $A/B \times C$ , Where: "A" means the total net earnings of the Fund for the relevant period (excluding unrealised gains). "B" means the average daily balance of the Fund for the relevant period. "C" means the number of days in the year. Returns are based on investors remaining invested within the Fund for the entire relevant return period. Past returns do not guarantee future performance. Investors will not necessarily be taxed at 33% on their return on investment in the Fund but at their individual applicable prescribed investor rate. See footnote 1 on front page. Source of other banks returns information are from [www.interest.co.nz](http://www.interest.co.nz) tracked and recorded on specific dates as illustrated.

# Investor Function • 28 July 2009 • Art Gallery

The next **Investor Function** will be held at the Dunedin Public Art Gallery on the 28 July. All investors are invited for another opportunity to meet with our Board of Directors, management and staff.

**When:** 2:30pm for afternoon tea followed by the presentation at 3pm  
**RSVP:** Please contact Ruth Schmelz on 471 6501 or 0800 800 212.



## The Royal Dunedin Male Choir

Mid-Year Subscribers' Concert • Monday 29 June • Dunedin Town Hall

Guest artists included Sarah Oliver (Soprano), Alex Vaastra (Violin), Charlotte Francis (Violin), Jaroslav Novak (Piano) and the King's Choir

NZMIT is proud to support one of New Zealand's oldest choirs - the Royal Dunedin Male Choir, formed in 1886. The Royal Dunedin Male Choir held their annual mid-year concert at the Town Hall at the end of June and their performance was another great success.



## 2009 Fund Managers Otago Golf Tournament

A great day was enjoyed by the NZMIT staff and hopefully all the golfing participants! The weather was surprisingly good and the course was in a magnificent condition. Thanks to the staff of the Otago Golf Club and Pro Shop for their usual high level of service.



## Our Team



**Peter Hutchison**  
General Manager



**Craig Ross**  
Senior Lending Manager



**Annette Marshall**  
Office Manager



**Ruth Schmelz**  
Manager's Assistant



**Ann Burton**  
Senior Lending Officer



**Carli Robinson**  
Administration Officer

# NZ Mortgage Income Trust Fund Facts



**No. 2 Fund**

Fund Size	\$99,534,348
Minimum Investment	\$500.00
Income Payments	Quarterly, floating rate of Return Income can be compounded
Term of Investment	Medium to long term

**Fees**

- ▶ No entry fees.
- ▶ In the interest of encouraging a stable and planned approach to investment, the Manager has discretion to charge a fee of up to 2% on any money withdrawn 12 months after investment and up to 1% on any money withdrawn more than 12 months but less than 24 months after investment.

Return to Investors	
Current Rate of Return	<b>4.00% p.a.<sup>1</sup></b>

Note: 1. See footnotes 1-4 on front page and general note on this page.

Fund Size	\$7,129,064
Minimum Investment	\$500.00
Income Payments	Quarterly, floating rate of Return Income can be compounded
Term of Investment	Medium to long term

**Fees**

- ▶ No entry fees.
- ▶ In the interest of encouraging a stable and planned approach to investment, the Manager has discretion to charge a fee of up to 2% on any money withdrawn 12 months after investment and up to 1% on any money withdrawn more than 12 months but less than 24 months after investment.

Return to Investors	
Current Rate of Return	<b>6.00% p.a.<sup>1</sup></b>

Note: 1. See footnotes 1-4 on front page and general note on this page.

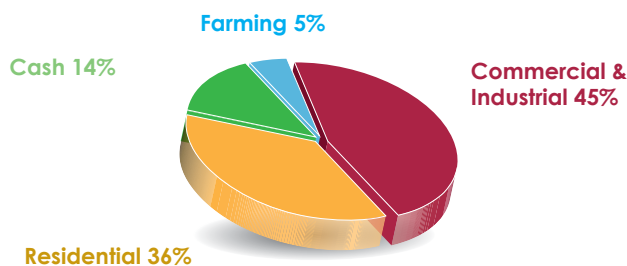
## Where the Fund is Invested - the Mortgage Portfolio

	PIE Fund	No.2 Fund
Number of Mortgages: (All registered First Mortgage Securities)	146	32
Value of Mortgages:	\$86,076,433	\$4,987,061
Average Mortgage Size:	\$589,564	\$155,845
Average Loan to Valuation Ratio:	50.36%	37.99%

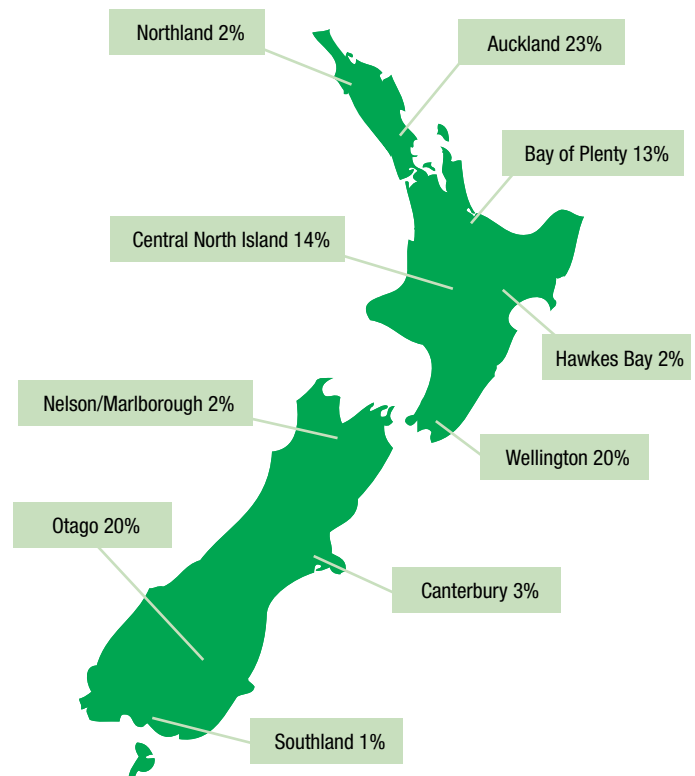
### National spread of Mortgage Securities

**North Island: 74%**  
(Auckland City: 23% & Wellington: 20%)

**South Island: 26%**  
(Nelson & Marlborough 2%, Christchurch 2%, Dunedin 4%)



## Loans by Region



**General Notes:**  
On the 1st of October 2007 NZ Mortgage Income Trust No.2 Fund was formed. All the returns in this Newsletter are calculated quarterly up to 30/6/2009, unless stated otherwise, after all fees and expenses have been deducted, and are expressed as a per annum equivalent before tax. From 01/10/2007 returns are calculated daily but paid out quarterly. Details on the return calculation are set out in the registered prospectus for the No.2 Fund that is available on request. Past returns do not guarantee future performance. All information is current to 11 June 2009, unless stated otherwise. For further information please contact your adviser or our office to obtain a copy of our current No.2 Fund Investment Statement and/or Prospectus.

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